

2008-0115

**Wai'ola O Molokai
Molokai Public Utilities Inc
Mosco Inc
745 Fort St #600
Honolulu, HI 96813**

FILED
2008 JUN 25 P 3:49
PUBLIC UTILITIES
COMMISSION

June 25, 2008

The Honorable Chairman and Members of the
Hawaii Public Utilities Commission
465 South King Street
Kekuanaoa Building, Room 103
Honolulu, HI 96813
Attention: Stacey Kawasaki Djou, Esq.
Ms. Karen Higashi

RE: Order Instituting a Proceeding to Provide Temporary Rate Relief to Molokai Public Utilities, Inc., Wai'ola O Moloka'i, Inc., and Mosco, Inc.

Dear Chair Caliboso;

We welcome the PUC's actions and are most appreciative of the PUC's efforts in this complex matter. We are conscious of the PUC's efforts and the unprecedented nature of undertaking a rate increase on its own initiative. As you are aware, MPU, Waiola and Mosco do not have the resources to prosecute a rate case and are not the applicants in this proceeding.

With regard to the Order, the proposal set forth by the PUC is insufficient by a significant amount and will not meet the stated purpose of the Order as it does not take into account current or necessary expenses and the ongoing volatility of certain cost items. The attached information provides an updated history and estimate of actual costs of operating the three companies on a temporary basis. This information was provided to you on June 23, 2008, under separate cover in response to your request of June 13, 2008.

To summarize, using prior methods of accounting annualizing May year to date actuals, MPU has projected for fiscal year 2008 a total operating loss of \$479,000 per year or an estimated monthly average loss of \$40,000. 61% of these costs, or approximately \$556,000 of the total operating expense, was associated with energy costs including electricity and diesel fuel. The remainder are general operational costs.

Using the same accounting methods as above, Waiola had a total operating loss of \$149,000 per year or \$12,000 per month. 12% of the total cost was associated with energy costs and the remainder are general operational costs.

Although it has been alleged that Mosco is operating with sufficient return to prevent a loss, the actual costs of operating Mosco, if it were not part of a larger operation, would be significantly higher. As you are aware, Mosco is currently the beneficiary of a savings in operating cost due to shared staffing and operational expenses between the three companies. If Mosco was separated from the three and had to stand on its own, costs would significantly increase. These projected increased costs are reflected in the attached information.

Should Mosco be operated as a separate entity it would have an additional increase in operating expense such that it would suffer approximately a \$35,000 annual loss equating to losses of \$3000 per month.

We have included in our projections expenses for fuel and power at the rates that the utilities paid in the most recent billings, which is a substantial increase over the prior expenses of this type. The variability of this cost is a serious issue which directly impacts viability.

With the described adjustments, and factoring in the effect of the recent closure of Molokai Ranch, our best estimate of the rates that are appropriate on a temporary basis to make it possible for the utilities to continue to operate (absent some system failure that would require a capital outlay) are as follows:

Wailoa -	\$5.15 per 1000 gallons
MPU -	\$ 6.04 per 1000 gallons
Mosco -	\$ 52.56 per month

In addition to the expenses referenced above, some additional expenses must be considered as operating costs in order to calculate a self-sustaining rate that would enable the temporary continuance of operations. A recent Supreme Court decision vacated MPU's allocation of water from Well 17 previously granted by the Commission on Water Resource Management. In addition, MPU's agreement with Department of Agriculture to transmit water through the MIS to Mahana has expired and the DOA has taken the position that a new agreement cannot be entered into without the completion of an Environmental Assessment. Currently, there is no other way to transmit water to MPU customers.

MPU does not have the resources to engage in the CWRM allocation proceeding nor does it have the resources to complete an EA for use of the MIS. The proposed rates set forth above will not create the necessary resources to do so. At present these two issues remain outstanding and MPU has not been required to actively pursue either issue. Should either the allocation proceeding be re-convened or the DOA require MPU to proceed with the development of an EA, MPU will not be able to meet those demands and will be forced to cease operation regardless of any rate increase.

It has also become clear that the variability of some of these historical and projected operational cost factors needs to be addressed in any order for a temporary rate increase to have the desired impact. Energy costs have become quite volatile, and it is essential to provide for some type of fuel surcharge that could be calculated on a monthly basis.

We must also recognize the likelihood of a decrease in revenues resulting from the natural cutback in water usage when rates increase. This impact would also warrant a monthly review of rates.

Another concern is the potential for system breakdown and the ability of the utilities to handle a significant capital expense should such a loss occur. Since the companies have exhausted their capital and will not have borrowing capacity, the establishment of a capital reserve may be prudent to ensure that there is no disruption of service in the case of an equipment or system failure. Again, this could be subject to reimbursement to ratepayers on transfer of the companies. The rates we have calculated above do not include a capital reserve, although we firmly believe such a reserve to be prudent.

Because the current docket is intended to set only a temporary rate sufficient to avoid an imminent disruption of service, we have not included in the expense calculation any cost for the utilities to rent the assets of MPL that have previously been used without charge in connection with the furnishing of service. During the period while MPL was covering the shortfall in operating expenses of the utilities, inter-company charges for those expenses would have only increased the amount of deficit that MPL would be covering and were therefore pointless. However, in any effort to calculate a true self-sustaining rate for the utilities, such charges must be included. MPL will expect a reasonable rental for its property upon the transfer of the utilities, or in connection with any rate intended to be effective as more than a temporary measure.

We wish to emphasize that the effect of any under-estimation of the actual and necessary expenses of operating the utilities could jeopardize the viability of the utilities. As we have previously mentioned, we believe that it is the legal and moral duty of the utilities not to obtain goods or services that it cannot afford to pay for. If the temporary rates set by the Commission prove to be insufficient to cover all expenses, this may necessitate the suspension or termination of utility services, or it may cause suppliers of those goods and services to cease making them available to the utilities. The consequences of setting a temporary rate that proves to be higher than necessary are much less severe than the consequences of a rate that is lower than necessary.

Thank you for the opportunity to comment on your proposed order. We have made a best estimate, within the time available, to calculate what a temporary rate increase should be to make the utilities self-sustaining on a temporary basis, but we can give no assurance that, even with that increase, all expenses will be covered. Although we are not the applicant and this rate adjustment is not being made at our request we are available to provide the PUC with any additional information it may require.

Very Truly Yours;

A handwritten signature in black ink, appearing to read 'Peter A. Nicholas', with a stylized, cursive script.

Peter A. Nicholas
Director


c.c. Honorable Charmaine Tavares, Mayor, County of Maui
Catherine Awakuni, Executive Director
Division of Consumer Advocacy, DCCA

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

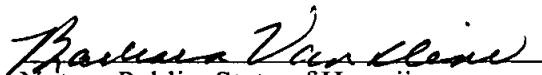
VERIFICATION OF ROY SUGIYAMA

Roy Sugiyama, being first duly sworn, deposes and says:

The historical information set forth in the Exhibits to the letter submitted to the Public Utilities Commission on June 25, 2008 responding to the "Order Instituting A Proceeding To Provide Temporary Relief To Molokai Public Utilities, Inc. Waiola O Molokai, Inc. and Mosco, Inc" and used as the basis for financial projections for Molokai Public Utilities Inc., Waiola O Molokai, Inc. and Mosco, Inc. are accurate compilations of the information contained in the books and records of Molokai Public Utilities Inc., Waiola O Molokai, Inc. and Mosco, Inc., with which I am familiar, and that the projections utilized are reasonable and fair projections of the cost of operations, based on my knowledge of the operations of the utilities.


Roy Sugiyama

Subscribed and sworn to before me this
25th day of June, 2008.


Notary Public, State of Hawaii
My commission expires : _____

BARBARA VAN DINE
Notary Public, State of Hawaii
My commission expires: June 25, 2012

Molokai Properties Limited
Waiola O Molokai
Service Rate Analysis

Projection using FY 2008 (YTD May 31, 2008) as base

	Amount	Cost Type V (variable) F (fixed)	Variable	Fixed
Water Operating Results				
Revenues				
Water	91,954			
Meter Charge	29,609			
Tap-in	218			
Hydrant	63			
Reconnection	109			
	<u>121,954</u>			
Cost of Sales	125,275	V	125,275	
	<u>(3,321)</u>			
Salaries & Benefits	60,204	V	60,204	
Professional Services	12,341	F		12,341
Lease Rent	-	F		-
Electricity	12,359	V	12,359	
Clean & Refuse	108	F		108
Repair & Maint	11,375	V	11,375	
Equipment Rental	92	F		92
Material & Supplies	5,808	V	5,808	
Fuel	5,093	V	5,093	
Uniforms	-	F		-
Travel	1,939	F		1,939
Real Property Tax	-	F		-
Public Service Tax	6,574	V	6,574	
License & Fees	28	F		28
Administrative	29,470	F		29,470
	<u>145,391</u>		<u>226,688</u>	<u>43,978</u>
			84%	16%
Operating Loss	(148,712)			-

Gallons Sold	KGallons		Per Kgal			
			Revenues	Variable	Fixed	Total
Outsider	47,488	88%				
Internal (Lodge/BV/Office)	6,201	12%				
	<u>53,689</u>	<u>100%</u>	-	4.22	0.82	5.04

Eliminate Internal Use (Lodge/BV/Office) would increase or reduce cost per Kgal?

Cost Savings	26,181
Total Cost	270,665
Cost w/o Internal Use	244,485
Cost per Kgal w/o Internal Use	5.15
Increase in Cost per Kgal	0.11

Conclusion

Cost per Kgal increased by \$0.14 per Kgal when removing the Internal Use. This increase indicates that losing Internal sales placed more burden on the Outside sales to absorb the fixed cost.

Molokai Properties Limited
Molokai Public Utilities, Inc.
Service Rate Analysis

Projection using FY 2008 (YTD May 31, 2008) as base

	Amount	Cost Type V (variable) F (fixed)	Variable	Fixed
Water Operating Results				
Revenues				
Water	577,637			
Meter	52,169			
Availability	-			
Tap-in	491			
Miscellaneous	25,462			
	<u>655,760</u>			
Cost of Sales	218,288	V	218,288	
	<u>437,472</u>			
Salaries & Benefits	74,279	V	74,279	
Professional Services	16,843	F		16,843
Lease Rent	129,515	F		129,515
Electricity	201,812	V	201,812	
Clean & Refuse	172	F		172
Repair & Maint	78,545	V	78,545	
Equipment Rental	145	F		145
Material & Supplies	4,049	V	4,049	
Fuel	354,670	V	354,670	
Uniforms	-	F		-
Travel	457	F		457
Real Property Tax	920	F		920
Public Service Tax	35,837	V	35,837	
License & Fees	45	F		45
Administrative	19,364	F		19,364
	<u>916,653</u>		<u>967,481</u>	<u>167,460</u>
			85%	15%
Operating Loss	(479,181)			-

Gallons Sold	Gallons		Per Kgal			
			Revenues	Variable	Fixed	Total
Outsider	139,401	70%				
Internal (Golf Course)	60,747	30%				
	<u>200,148</u>	<u>100%</u>	-	4.83	0.84	5.67

Eliminate Internal Use (Golf Course) would increase or reduce cost per Kgal?

Cost Savings	293,642
Total Cost	1,134,941

Cost w/o Golf Course	841,299
Cost per Kgal w/o Golf Course	6.04
Increase in Cost per Kgal	0.36

Conclusion

Cost per Kgal increased by \$0.42 per Kgal when removing the Golf Course. This increase indicates that loosing Internal sales placed more burden on the Outside sales to absorb the fixed cost.

Molokai Properties Limited
Mosco Inc
Service Rate Analysis

Projection using FY 2008 (YTD May 31, 2008) as base

	Amount	Cost Type V (variable) F (fixed)	Variable	Fixed
Water Operating Results				
Revenues				
Sewer	185,808			
--	-			
--	-			
--	-			
Miscellaneous	-			
	<u>185,808</u>			
Cost of Sales	-	V	-	
	<u>185,808</u>			
Salaries & Benefits	34,990	V	34,990	
Professional Services	-	F		-
Lease Rent	-	F		-
Electricity	38,508	V	38,508	
Clean & Refuse	70	F		70
Repair & Maint	4,053	V	4,053	
Equipment Rental	59	F		59
Material & Supplies	18	V	18	
Fuel	3,296	V	3,296	
Uniforms	-	F		-
Travel	30	F		30
Real Property Tax	-	F		-
Public Service Tax	9,124	V	9,124	
License & Fees	18	F		18
Administrative	7,732	F		7,732
	<u>97,897</u>		<u>89,988</u>	<u>7,909</u>
Cost %			92%	8%
Operating Gain (Loss)	87,911			-

	<u>Billings</u>	
Outsider	169,884	100%
Internal (Golf Course)	484	0%
	<u>170,368</u>	<u>100%</u>

Molokai Properties Limited
Mosco Inc
Budget Projection

FY 2009

	Amount	Cost Type V (variable) F (fixed)	Variable	Fixed	Monthly
Water Operating Results					
Revenues					
Sewer	221,383				18,449
--	-				-
--	-				-
--	-				-
Miscellaneous	-				-
	<u>221,383</u>				<u>18,449</u>
Cost of Sales	-	V	-		-
	<u>221,383</u>				<u>18,449</u>
Salaries & Benefits	150,770	V	150,770		12,564
Professional Services	100	F		100	8
Office Lease Rent	100	F		100	8
Electricity	42,000	V	42,000		3,500
Clean & Refuse	1,080	F		1,080	90
Repair & Maint	4,000	V	4,000		333
Equipment Rental	769	F		769	64
Material & Supplies	120	V	120		10
Fuel	520	V	520		43
Uniforms	-	F		-	-
Travel	-	F		-	-
Real Property Tax	-	F		-	-
Public Service Tax	8,861	V	8,861		738
License & Fees	200	F		200	17
Administrative	12,842	F		12,842	1,070
	<u>221,381</u>		<u>206,271</u>	<u>15,091</u>	<u>18,447</u>
Cost %			93%	7%	-
Operating Loss	21			-	2

Based on these projections Rate should be \$52.56 per customer per month.

Months	12
Customers	351
Rate	<u>\$52.56</u>
New projected revenues	<u>\$221,383</u>

To break even

Notes:

Electricity Current average bill \$3500/month

Cleaning & Refuse \$25 + \$65/mo

Repairs & Maintenance - rounded up FY2008

Materials & supplies - office supplies

Fuel 52 Weeks X 2.0 gallons X \$5.00/gallon. Estimated 25 miles per week.

PUC Tax tax 4.0025% of Revenues

Admin

From FY2008 Monthly

Admin fees	95	Controller & accountant charges/month
Office	15	
Telephone	52	Install & connect new phone line-Mkk
Cellphone	75	one phone
Insurance	833	From FY2008-potentially higher for just one company
	<u>1,070</u>	

Molokai Properties Limited
PUC Companies - Waiola O' Molokai, Molokai Public Utilities and Mosco
Cash Provided to Operating Entity - Twenty-four Month Period
June 30, 2006 to May 31, 2008

	Waiola	Molokai Public Utility			Mosco
		Operating	Capital	Total	
Jun 2006	(10,454)	(21,448)	-	(21,448)	8,126
Jul	(11,581)	(23,914)	-	(23,914)	8,086
Aug	(10,519)	(18,746)	-	(18,746)	9,204
Sep	(14,056)	(15,293)	-	(15,293)	9,466
Oct	(7,180)	(13,894)	-	(13,894)	9,086
Nov	(11,376)	(47,312)	-	(47,312)	8,488
Dec	(16,538)	(38,100)	-	(38,100)	6,979
Jan 2007	(8,390)	(29,483)	-	(29,483)	8,728
Feb	(8,782)	(16,563)	-	(16,563)	8,268
Mar	(14,494)	(67,904)	(46,875)	(114,779)	1,175
Apr	(10,934)	(19,002)	-	(19,002)	8,712
May	(5,588)	(38,633)	-	(38,633)	10,093
Jun	(28,267)	(141,141)	(16,353)	(157,494)	9,407
Jul	(18,819)	(47,080)	-	(47,080)	8,348
Aug	(11,891)	(30,073)	-	(30,073)	8,653
Sep	(18,687)	(28,323)	(46,520)	(74,843)	9,185
Oct	(20,154)	(65,201)	18,198	(47,003)	7,984
Nov	(8,165)	(21,733)	(24,335)	(46,068)	8,808
Dec	(9,667)	(51,163)	-	(51,163)	8,592
Jan 2008	(18,439)	(51,261)	-	(51,261)	7,038
Feb	(7,991)	(40,004)	(114)	(40,118)	7,933
Mar	(12,046)	(45,653)	-	(45,653)	522
Apr	(6,653)	(46,617)	-	(46,617)	8,439
May	(3,507)	(30,332)	-	(30,332)	5,083
Total for 24 Month Period	(294,178)	(948,873)	(115,999)	(1,064,872)	186,403
Monthly Average	(12,257)	(39,536)	(4,833)	(44,370)	7,766

Wai'Ola Molokai

Net Book Value Report 4/30/2008

	Sys No	Description	Basis	Net Book Value
G/L Asset Acct No = 000-176-00				
		Water Systems		
Billing	000018	"Cubic" Utility Billing System	8,577.50	0.00
Old Readers	000007	Utility Data System	11,597.57	1,031.76
Out of Service	000042	Kalae Kualapuu Ag line	8,776.16	4,790.31
Pipe	000026	Maunaloa Water Pipe & Valve	1,428.13	0.00
Pipe	000051	Waiola Pipeline	6,414.35	152.70
Pipe	000052	Kipu Pipeline	1,645.82	39.17
Pipe	000054	4" from Kualapuu Reservoir (0.23 MG) to Kipu (emergency b:	141,907.86	105,484.82
Reservoir	000047	Maunaloa Reservoir (2.2 MG)	588,346.97	206,747.25
Reservoir	000044	Kualapuu Reservoir (0.23 MG) Upgrade	219,943.75	141,208.78
Water Meters	000050	Water Meters	61,158.39	15,487.37
Water System	000017	Maunaloa Village Water System	2,091,948.30	1,037,974.61
Water System	000038	Water Transmission System-Well 17 to Kualapuu	110,800.00	0.00
Water System	000039	Kipu System Improvements	33,751.21	122.06
Water System	000040	Kualapuu Booster Automation	6,745.00	0.00
Water System	000043	Kualapuu County Water Tie	70,628.99	0.00
Water System	000048	Maunaloa 12" Water Main	247,635.97	137,850.68
		Total Assets	\$3,611,305.97	\$1,650,889.51

Molokai Public Utilities, Inc.

Net Book Value Report 4/30/2008

	Sys No	Description	Basis	Net Book Value
Equipment				
Pump Station	000123	Controls for Mahana Pumps	13,924.60	12,067.97
Puukole Tanks	000110	Solar System Puukole Tanks	29,120.70	12,826.96
Tools	000103	Maintenance Equipment & Tools	7285.08	1074.81
Water Meters	000114	14 Water Meters M35 B81 3/4"	2,621.46	2,097.18
Well 17	000112	Caterpillar Engine Model 3412E	87,221.32	20,351.87
			<u>140,173.16</u>	<u>48,418.59</u>

Water Systems				
Pipe	000115	Emergency Bypass Line for Moana Makani	65,000.00	15,166.67
Pipe	000108	HDPE Pipe for Papahaku Ranchlands (ITC) High p	67,802.25	45,813.66
Pipe	000120	Papahaku Line Bypass	63,700.54	55,723.76
Pump Station	000128	Mahana Pump replacement	14,100.00	13,316.67
Rate Case 2004	000117	MPU Rate Case	125,416.02	29,263.76
Water Meters	000118	Meter Replacement	67,072.97	41,361.66
Water System	000106	System Acquisition Cost 12/2001	4,931,896.00	0.00
Water System	000124	DOH Compliance-Puunana Treatment Plant Upgra	1,012,378.49	881,612.93
Well 17	000128	Well 17 Repairs	127,003.32	99,842.21
			<u>6,474,369.59</u>	<u>1,182,101.32</u>

Total Assets

6,614,542.75	1,230,519.91
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MOSCO, INC.

Net Book Value Report 4/30/2008

Description	Basis	Net Book Value
Equipment		
Sutorbilt 4M Blower Package (USA I	3,731.00	621.84
	<u>3,731.00</u>	<u>621.84</u>
Water Systems		
Sewer Treatment System Acquisition Cost 12/2001	752,501.00	291,633.08
Sewer Treatment Sewer Compliance-DOH	183,510.10	124,379.06
Sewer Treatment Mosco Rate Case	51,984.00	12,129.60
Sewer Treatment WWTP Backup Genset	9,999.95	8,083.29
	<u>997,995.05</u>	<u>436,225.03</u>
Total Assets	<u>1,001,726.05</u>	<u>436,846.87</u>

MOLOKAI RANCH, LTD.

Assets Benefiting Water Companies 4/30/2008

Primary User	Category	Description	Basis	Net Book Value
MPU/Wai	Equipment	Maintenance Equipment & Tools	11450.53	347.21
All	Equipment	Backhoe from All-Line	37,808.48	9,451.62
All	Vehicle	2004 Ford Ranger for Water Depts	20,083.49	2,343.07
All	Vehicle	2000 Ford Ranger	9,400.00	7,363.34
			<u>78,740.50</u>	<u>19,505.24</u>

MOLOKAI RANCH, LTD.

Water Assets Benefiting Molokai Public Utilities 4/30/2008

Primary User	Category	Description	Basis	Net Book Value
MPU	Equipment	Maintenance Equipment & Tools	2655.81	815.52
MPU	Reservoir	Fence at Puunana around reservoir	32,540.38	28,020.86
MPU	Reservoir	Fence at Puu Okoli around reservoir	16,871.89	14,528.57
MPU	Water Treatment	Kaluakoi Water Meters	49,883.01	0.00
MPU	Water Treatment	Puunana Water Treatment Plant Upgrades	22,727.13	14,962.01
MPU	Water Treatment	Well17 Roof	57,598.42	1,919.97
			<u>182,076.62</u>	<u>60,246.93</u>

MOLOKAI RANCH, LTD.

Water Assets Benefiting WaiOla O Molokai 4/30/2008

Primary User	Category	Description	Basis	Net Book Value
Wai	Equipment	Maintenance Equipment & Tools	3778.82	0
Wai	Pipe	Kawela Intake Pipe	3,900.00	1,722.50
Wai	Pipe	4" Pipe-Lualohe & Kalii	21,040.92	3,717.07
Wai	Pipe	Main Line-Kawela to Kawela Intake	915,135.60	509,425.53
Wai	Pipe	8" water line Mountain to Puunana	3,096,363.09	2,167,468.17
Wai	Pipe	Hanalihiho Line	66,296.00	48,175.10
Wai	Reservoir	Kawela Reservoir (5MG) Overflow	3,143.00	209.54
Wai	Reservoir	Dole Reservoir (4 MG) to Redwood Tank	99,530.43	51,424.07
Wai	Reservoir	30 Million Gallon Reservoir	1,839,190.22	1,057,621.48
Wai	Reservoir	Maunaloa Reservoir (2.2 MG) Repair	23,071.32	21,378.28
Wai	Tank	Rehab Structure @ Redwood Tank	12,253.33	3,573.92
Wai	Tank	Replace Kipu Tanks	165,997.79	125,051.69
Wai	Tank	3 Water Storage Tank-Hale	39,172.68	0.45
Wai	Tank	ML219-Water Tank	309,159.00	213,319.71
Wai	Water System	Maunaloa Water Main	72,493.00	37,454.72
Wai	Water System	WaiOla Water Meters	41,687.94	23,988.16
Wai	Water System	Maunaloa Water System	96,304.77	53,609.76
Wai	Water System	Puunana Treatment Plant Upgrade	874,485.06	435,598.40
Wai	Water System	Mountain Water System	189,278.31	94,231.82
Wai	Water System	Kamiloloa Well	1,352,795.00	937,937.87
			<u>9,205,076.28</u>	<u>5,786,908.04</u>
			<u>9,460,168.14</u>	<u>5,866,486.51</u>